






Quarterly Activities Report and Appendix 5B

For the period
ending
30 September
2014

ASX: ARU



HIGHLIGHTS

-  **Contracts awarded for Stage 1 RE extraction testwork to two China-based institutes**
-  **Beneficiation optimisation Stage 2 testwork commences**
-  **Northern Territory Government appoints Lead Agency and Case Manager in support of Major Project status for the Nolans Project**
-  **Groundwater extraction licence application lodged for Nolans Project**
-  **Licence application submitted to assess life-of-mine supply option for carbonate material**

NOLANS PROJECT

CONTRACTS AWARDED TO CHINA-BASED INSTITUTES FOR STAGE 1 RE EXTRACTION PROGRAM

Arafura has recently awarded contracts to two China-based institutes to conduct a review and optimisation of the Nolans rare earth ("RE") extraction (hydrometallurgical) flowsheet. Both organisations will work on optimising the RE extraction process from the phosphate concentrate with the aim of reducing capital and operating costs for the RE Intermediate Plant. The first stage of work is laboratory-scale test work. On completion of Stage 1 and analysis of the results, a decision will be made to continue with Stages 2 and 3 with one of the institutes.

Both institutes are prominent in their respective fields with significant experience in the areas of metallurgy and advanced materials and are leaders in innovation. The Company looks forward to working with both institutes and is confident the optimisation review will produce significant technical and commercial benefits.

In parallel with the China-based program, the Company has been progressing targeted confirmatory RE extraction batch and subsequent locked cycle testwork in Australia.

BENEFICIATION OPTIMISATION STAGE 2 TESTWORK COMMENCES

During the period, final reports from the Stage 1 beneficiation programs were received and reviewed by the Company. Based on that review the Company has elected to continue working with the Chengdu Analytical and Testing Centre for Minerals and Rocks ("CTC") on Stage 2 of the program, which has now commenced. The variability testwork component of the Stage 2 program will use material from the Company's comprehensive inventory of over 27,000 metres of diamond



drill core from across the Nolans Bore resource. This material has been identified and is currently being prepared for shipping to CTC.

The Chinese optimisation program has identified a number of opportunities to further simplify the Nolans beneficiation flowsheet. The Company expects to obtain additional data from the Stage 2 work and hopes to quantify the resultant capital and operating cost savings during Stage 2.

MAJOR PROJECT STATUS NORTHERN TERRITORY

The development of the Nolans Project is subject to a number of Australian and Northern Territory government approval processes. These governments have determined that the appropriate level of assessment for the Project's environmental approvals is an Environmental Impact Statement ("EIS").

Nolans has for some time had Major Project status with the Northern Territory Government ("NTG"). Lead agency arrangements for Major Projects have recently been reviewed by the Department of the Chief Minister ("DCM"). The lead agency for the Nolans Project has recently been assigned to the Department of Mines and Energy ("DME"). The Company also notes DME has assigned a highly experienced case manager who will lead the working group. Arafura is highly appreciative of the efforts of DCM in the review of the lead agency arrangements and looks forward to working with DME to identify, manage and resolve issues impacting on Project delivery.

EXPLORATION

AILERON – REYNOLDS (Rare Earths; Water; Extractive Minerals)

GROUNDWATER EXTRACTION LICENCE

Following a comprehensive 22-month investigation of the Southern basins area (south-west of the Nolans Site) that included drilling of over 2,500 metres of exploration, production and monitoring bores, the Company recently lodged a groundwater extraction licence application with the Water Resources Division of the NTG's Department of Land Resource Management (ASX: ARU 22/10/14) to secure water extraction rights from the Southern basins to service the operational requirements of the Nolans Project over its planned life.

The Company believes the Southern basins aquifer system is extensive, high yielding and capable of supplying mining, concentrating and chemical processing operations at Nolans with a sustainable supply of process and potable water. Its work to date supports the view that the system provides a viable alternative and preferred water supply to the Ti Tree Water Control District.

Contracts have been awarded and work is underway on an additional phase of groundwater resources investigative work in the Southern basins. Key activities include the establishment of up to three additional production bores and a number of monitoring bores. The key objectives of this work are to develop a more detailed understanding of the aquifer system including its recharge characteristics.

EXTRACTIVE MINERAL EXPLORATION LICENCE

The Company lodged an application with DME for an Extractive Mineral Exploration Licence (“EMEL”) that covers a sizable exposure of carbonate (marble) within relatively close proximity to the Nolans Sites. EMEL 30510 sits wholly within the area of the Company’s 100%-owned exploration licence EL 28473 (Figure 1).

Based on geological mapping and sampling, and initial metallurgical testwork, the Company believes the material within EMEL 30510 has the potential to provide the life-of-operation supply requirements for carbonate for the RE extraction process at Nolans, and potentially eliminate the need to transport carbonate from commercial quarries located at a much greater distance away from the Project.

The Company will work to confirm the extent of the carbonate resources in order to convert the EMEL to an Extractive Mineral Lease (“EML”).

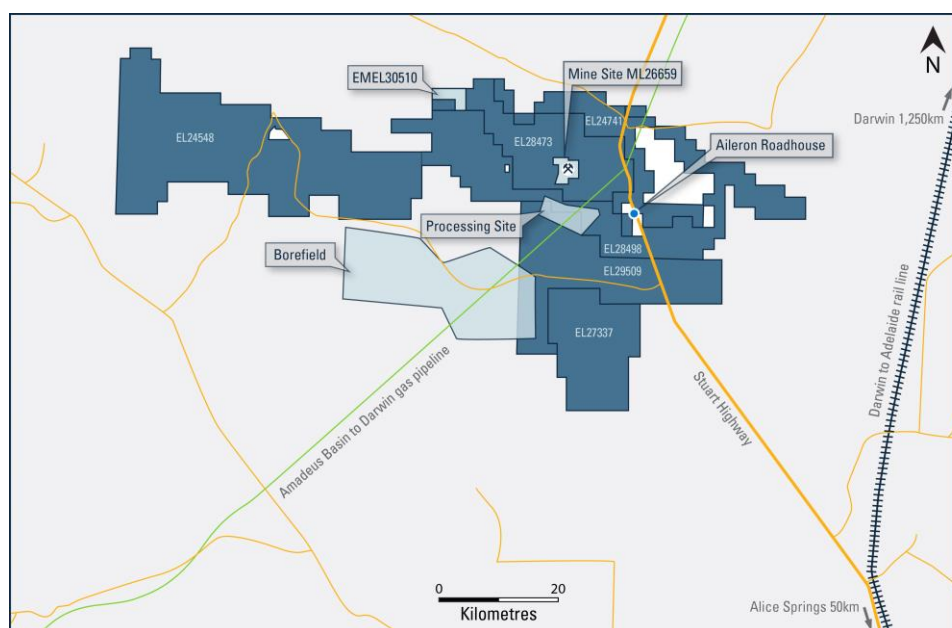


Figure 1: Arafura’s tenement position in the Nolans region, which now includes EMEL30510

YALYIRIMBI (Iron)

Ferrowest Limited (“Ferrowest”; ASX: FWL) is progressing work in relation to the Yalyirambi Iron Project to earn up to a 60% interest in Arafura’s iron ore rights on EL 24548 through an incorporated joint venture. The iron rights are held through Arafura Iron Pty Ltd (“AIPL”).

Ferrowest has previously announced an estimate of Indicated and Inferred Mineral Resources for Yalyirambi. Arafura and Ferrowest have now completed the transfer of the 51% shareholding in AIPL and the appointment of the two Ferrowest nominated directors (ASX: FWL 30/10/14).



JERVOIS (Base and Precious Metals; Iron-Vanadium)

Rox Resources Limited ("Rox"; ASX: RXL) is progressing work on EL 29701 to earn up to a 70% interest in the base and precious metals mineral rights (Cu-Pb-Zn-Ag-Au-Bi-PGE).

Rox has recently completed a reverse circulation (RC) drilling campaign at the Bonya copper project. Wide intervals of copper-enriched massive sulphides have been intersected by three drill holes at depths ranging from near surface to approximately 100m beneath the abandoned Bonya Mine workings. Assays from the three successful drill holes were recently reported by Rox (ASX: RXL, ARU 20/10/14).

Subject to drilling rig availability Rox is planning to commence a follow up RC drilling campaign as soon as possible.

MT PORTER – FRANCES CREEK (Gold)

Ark Mines Ltd ("Ark", ASX: AHK) is now progressing work to earn a 40% interest in the Mt Porter tenements and Arafura's gold interests on Frances Creek. Upon completion of the first earn in Ark may increase its interest by 30%, to a total of 70%.

During the period Ark completed a placement of \$285,000 (ASX: AHK 21/07/14) to fund a drilling program at the Golden Honcho prospect (Frances Creek Project). The program commenced earlier this month (ASX: AHK 07/10/14). On completion of this work Ark is planning to undertake a second phase of drilling on the project. Arafura agreed to extend, until 26 December 2014, the period for Ark to undertake its minimum obligations under the Mining, Farmin and Joint Venture Agreement.

PLEASE ALSO REFER TO APPENDIX A FOR A SUMMARY OF ALL MINING TENEMENTS AND AREAS OF INTEREST AS AT 30 SEPTEMBER 2014.

STRATEGY AND OUTLOOK

NOLANS DEVELOPMENT REPORT

The Company published a comprehensive update on the Nolans Project, with the release of the [Nolans Development Report](#) ("NDR") (ASX: ARU 02/09/14). The NDR outlines the Company's development plans for Nolans and presents a detailed analysis of the work undertaken to date to support the Company's strategy of de-risking the Project's pathway to production. It highlights the significant achievements the Company has made over the past two years with a particular focus on reducing Project capital and operating costs. The report also contains detailed economic analysis for the Project and incorporates the changes for the reconfigured production process that includes the relocation of intermediate chemical processing to the Nolans Site, and the RE Separation Plant being located in an established offshore chemical precinct.

The NDR is a spring board for the Company to work towards completing the Nolans Definitive Feasibility Study ("DFS") in mid- to late-2015. The NDR will form the basis of the DFS but will also incorporate process improvements that are realised from the ongoing China-based optimisation program.

RARE EARTH MARKETS

In August China lost its appeal at the World Trade Organization ("WTO") in a case brought by the USA, the European Union ("EU") and Japan to challenge China's restrictions on exports of rare earths. China currently has quotas and tariffs in place for the export of rare earths. China introduced the quotas in 2010 for the then-stated purpose of managing pollution and to manage its rare earth resources.

China has indicated it intends to implement the recommendations and ruling in a manner that respects its WTO obligations. China has also indicated it would need a reasonable period of time to do so.

In early 2014 China commenced the implementation of plan to consolidate the country's rare earth production into six production groups with each group led by a large company. The stated objective of the plan was to consolidate and oversee the industry's development.

Following on from the industry consolidation strategy and the loss of the WTO appeal China has continued its objective of moving away from export control with a shift to focusing its efforts on production control. Earlier this month China's Ministry of Industry and Information Technology announced the implementation of a special campaign focused on the curtailing illegal activities in the mining, production and circulation of rare earths. The initial campaign will run from October 2014 through until 31 March 2015, with the key targets being illegal mining, illegal production, purchase and sale of rare earths, and processing of illegally sourced rare earths.

Industry experts have differing views on the volume of illegally produced rare earths that is in the market but all agree the amount is materially significant and has a major impact on supply volumes and rare earth prices. The Chinese government is currently negotiating with the USA, the EU and Japan to achieve a reasonable period of time to implement the WTO recommendations.



Concurrent with this China has also announced a strategy and campaign to fight the production and distribution of illegal rare earths. It's possible these actions will assist China in its negotiations and are a precursor to the measured removal of export controls.

It is highly likely the removal of China's rare earth export restrictions will not be a panacea for autonomous supply of rare earth products between China and the rest of the world.

CHANGE OF WEBSITE ADDRESS

Please note the Company's web address has recently changed. Links or references to the old website are currently being redirected to the new address: www.arultd.com

CORPORATE

As at 30 September 2014 the Company had A\$21.0 million cash on hand. Arafura continues to successfully reduce its corporate overheads whilst maintaining its all-important testwork programs in China and Australia.

In the December quarter the Company looks forward to providing further updates on the work being undertaken to optimise the RE extraction flowsheet.

The Company recently issued to all shareholders its Annual Report and a Notice of Meeting for the Annual General Meeting ("AGM"). Details for the AGM are as follows:

- Time and Date: 10:00am on Thursday 20 November 2014;
- Venue: Duxton Room 3, Duxton Hotel, 1 St Georges Terrace , Perth, WA

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/01, 01/06/10.

Name of entity

ARAFURA RESOURCES LIMITED

ABN

22 080 933 455

Quarter ended ("current quarter")

30 September 2014

Consolidated statement of cash flows

Cash flows related to operating activities		Current Quarter \$A'000	Year to date (3 months) \$A'000
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for (a) exploration & evaluation	(2,208)	(2,208)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(1,395)	(1,395)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	105	105
1.5	Interest and other costs of finance paid	(3)	(3)
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)*	-	-
Net Operating Cash Flows		(3,501)	(3,501)
Cash flows related to investing activities			
1.8	Payment for purchases of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(2)	(2)
1.9	Proceeds from sale of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)**	-	-
Net investing cash flows		(2)	(2)
1.13	Total operating and investing cash flows (carried forward)	(3,503)	(3,503)

*Receipt of non-capitalised portion of R&D Incentive

** Receipt of capitalised portion of R&D Incentive

+ See chapter 19 for defined terms.

1.13	Total operating and investing cash flows (brought forward)	(3,503)	(3,503)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other – Capital Raising Expenses	-	-
	Net financing cash flows	-	-

	Net increase (decrease) in cash held	(3,503)	(3,503)
1.20	Cash at beginning of quarter/year to date	24,547	24,547
1.21	Exchange rate adjustments to item 1.20	5	5
1.22	Cash at end of quarter	21,049	21,049

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current Quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	(223)
1.24	Aggregate amount of loans to the parties included in item 1.10	Nil

1.25 Explanation necessary for an understanding of the transactions

Salaries, fees and superannuation of Directors to the Company

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	Nil	Nil
3.2 Credit standby arrangements	Nil	Nil

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	2,095
4.2 Development	-
4.3 Production	-
4.4 Administration	1,295
Total	3,390

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current Quarter \$A'000	Previous Quarter \$A'000
5.1 Cash on hand and at bank	800	1,799
5.2 Deposits at call	20,249	22,748
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	21,049	24,547

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	See Appendix A		
	Interests in mining tenements acquired or increased			

+ See chapter 19 for defined terms.

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

		Total number	Number quoted	Issue price per security (see note 3)	Amount paid up per security (see note 3)
7.1	Preference + securities (description)				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	+Ordinary securities	441,270,644	441,270,644		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5	+Convertible debt securities (description)				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	Options			<i>Exercise price</i>	<i>Expiry date</i>
	ARUAU	600,000	-	\$0.81	31-12-14
	ARUAM	1,750,000	-	\$0.70	24-11-14
	ARUAW	1,878,000	-	\$0.23	31-12-15
		6,750,000	-	\$0.14	18-07-16
7.8	Issued during quarter	5,190,000	-	<i>Exercise price</i> \$0.105	<i>Expiry date</i> 30-09-14
7.9	Exercised during quarter	-	-	-	-
7.10	Expired during quarter	900,000	-	<i>Exercise price</i> \$0.96	<i>Expiry date</i> 16-07-14

+ See chapter 19 for defined terms.

7.11	Debentures (totals only)	-	-
7.12	Unsecured notes (totals only)	-	-

Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).

2 This statement does give a true and fair view of the matters disclosed.

Sign here:



Date: 30 October 2014

Print name:

Peter Sherrington
(Company Secretary)

Notes

1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

3 **Issued and quoted securities** the issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.

5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.

Appendix A – Mining Tenements Held As At 30 September 2014

Tenement reference	Project	Holder	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter	Notes
ML 26659	Nolans, NT	Arafura Rare Earths Pty Ltd	Mineral Lease	100%	100%	Application Lodged
EMEL 30510			Extractive Mineral Exploration Licence	100%	100%	Application Lodged
EL 28498 EL 28473 EL 29509 EL 27337 EL 24741 EL 30160	Aileron–Reynolds, NT	Arafura Resources Ltd	Exploration Licence	100% 100% 100% 100% 100% 100%	100% 100% 100% 100% 100% 100%	Application Lodged
EL 24548	Aileron–Reynolds, NT	Arafura Resources Ltd Arafura Iron Pty Ltd	Exploration Licence Non-iron rights Iron rights	100% 100% 100%	100% 100% 100%	Arafura Iron Pty Ltd (AIPL) shareholders are Arafura 49% and Ferrowest Ltd (FWL) 51%. FWL has a right to acquire up to 60% of AIPL
EL 29701	Jervois, NT	Arafura Resources Ltd	Exploration Licence	100%	100%	Rox Resources Ltd (RXL) has a right to acquire up to 70% of the base and precious metals rights

+ See chapter 19 for defined terms.



Tenement reference	Project	Holder	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter	Notes
EL 10137 ML 24727 ML 27228 ML 25087 ML 25088 ML 25529 ML 27225 ML 27226 ML 27230	Frances Creek, NT	Territory Resources Ltd	Gold Rights Gold Rights Gold Rights Gold Rights Gold Rights Gold Rights Gold Rights Gold Rights Gold Rights	100% 100% 100% 100% 100% 100% 100% 100% 100%	100% 100% 100% 100% 100% 100% 100% 100% 100%	Ark Mines Ltd (AHK) has a right to acquire up to 70% of the gold rights Applications Lodged for ML 27226 & ML 27230
ML 27227 ML 27229 ML 29930 MA 389		Frances Creek Pty Ltd	Gold Rights Gold Rights Gold Rights Gold Rights	100% 100% 100% 100%	100% 100% 100% 100%	Ark Mines Ltd (AHK) has a right to acquire up to 70% of the gold rights Application Lodged for ML 29930
ELR 116 ML 23839 EL 23237	Mt Porter, NT	Arafura Resources Ltd	Exploration Licence in Retention	100%	100%	Ark Mines Ltd (AHK) has a right to acquire up to 70% of all mineral rights on the tenements, with an immediate right to mine ML 23839 subject to regulatory approvals
			Mineral Lease	100%	100%	
			Exploration Licence	100%	100%	
EL 25754	Pamela, NT	Arafura Resources Ltd	Exploration Licence	100%	100%	Application Lodged

+ See chapter 19 for defined terms.